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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
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In the Matter of  
Simplification of the  
Depreciation Prescription Process

CC Docket 92-296  
[FCC 94-256]

INITIAL COMMENTS OF THE  
NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

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Pursuant to Sections 1.49, 1.415 and 1.419 of the Federal Communications Commission's ("FCC" or "Commission") Rules of Practice and Procedure, 47 C.F.R. Section 1.49, 1.415, & 1.419 (1992), the National Association of Regulatory Utility Commissioners ("NARUC") respectfully submits these comments on the FCC's Further Order Inviting Comments ("FOIC") adopted October 7, 1994, and released October 11, 1994 [FCC 94-256] in the above-captioned proceeding.

In support of these comments, NARUC states as follows:

I. NARUC'S INTEREST

NARUC is a quasi-governmental nonprofit organization founded in 1889. Members include the governmental bodies engaged in the regulation of carriers and utilities from all fifty States, the District of Columbia, Puerto Rico, and the Virgin Islands.

NARUC's mission is to improve the quality and effectiveness of public utility regulation in America. Specifically, NARUC is composed of, inter alia, State and territorial officials charged with the duty of regulating the telecommunications common carriers within their respective borders.

These officials have the obligation to assure that such telecommunications services and facilities as are required by the public convenience and necessity are established, and that service is furnished at rates that are just and reasonable.

Section 220(b) of the Communications Act of 1934, 47 U.S.C. Section 220 (1989), gives the FCC authority to establish depreciation rates as part of its authority to "...prescribe the forms of any and all accounts, records and memoranda subject to this chapter." Although, as a result of a 1986 Supreme Court case<sup>1</sup>, the FCC's actions in this docket cannot limit state action concerning intrastate depreciation rates, several states continue to rely, in part, on the FCC in establishing those intrastate rates. The so-called "three-way meeting process" has, for these states, been very productive. Because of this potential impact on State commission procedures, and NARUC's stated goal of promoting more efficient regulation, NARUC has participated in all earlier phases of, and has an interest in, this proceeding.

## II. BACKGROUND

In its Report and Order adopted on September 23, 1993 and released October 20, 1993 in CC Docket 92-296, the FCC concluded that the current depreciation prescription process should be simplified in light of the regulatory, technological, and market changes that the price cap Local Exchange Carriers (LECs) face today.

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<sup>1</sup> Louisiana Public Service Commission v. FCC, 476 U.S.355 (1986).

Accordingly, the FCC adopted a streamlined process that requires establishing ranges for projection life and future net salvage factors (the Basic Factor Range Option or "BFRO"). This process was to be implemented in two phases, beginning with the accounts most readily adaptable to the range approach. In its Second Report and Order in CC Docket 92-296, adopted on June 22, 1994 and released June 28, 1994, the FCC completed phase one of the process, adopting underlying basic factor ranges for 22 depreciation rate categories.

The FCC now proposes ranges be established for eight of the remaining plant categories. Alternative simplified procedures are proposed for the remaining four accounts. The FCC now seeks comments on its proposals for phase two implementation.

### III. DISCUSSION

NARUC appreciates the opportunity to offer comments on this Order. As State regulators responsible for reviewing utility depreciation rate studies, and ensuring that depreciation rates are reasonable and appropriate, NARUC supported the FCC's adoption of the projection life and future net salvage ranges for the 22 plant categories identified in phase one.

The FCC's proposed ranges of projection lives and future net salvages for eight of the remaining 12 plant categories are based on an analysis similar to that performed in establishing ranges for the phase one plant categories. The FCC analysis considered industry-wide basic factors underlying currently prescribed depreciation rates and application of criteria such as the width of

the specific range, the number of carriers encompassed by that range and technological trends or recent changes in carrier investment plans that might not be fully reflected in the LECs' prescribed factors. Upon review, NARUC finds that these ranges appear to provide flexibility to the substantial majority of carriers, thus enabling them to utilize the simplification process. Consequently, NARUC supports the proposed ranges of projection lives and net salvages.

NARUC notes that the FOIC does not state an implementation date for these proposed ranges. The FCC's Second Report and Order, however, did indicate that the second phase ranges would take effect in 1995. NARUC urges the FCC to clarify this issue in its final order.

As with the ranges established under phase one implementation of the BFRO, NARUC agrees that the phase two proposed basic factor ranges are preferable to the alternative of adopting ranges which would include all of the currently prescribed basic factors. Such all encompassing ranges would be so broad as to be meaningless and increase the possibility of manipulation.

The FCC is not proposing basic factor ranges for four remaining accounts. Three of these accounts are referred to as "dying accounts" (Analog Electronic Switching, Electromechanical Switching and Aerial Wire) since they represent obsolete equipment that LECs are rapidly phasing out in accordance with specific retirement schedules based on company network modernization plans. The FCC proposes to develop depreciation rates for each LEC that match that LEC's specific retirement plans.

NARUC agrees that such rates would be much more accurate than rates based upon national averages. NARUC further agrees that the depreciation rate calculations for these accounts can be readily performed using the individual company retirement schedules without the need for statistical analyses to forecast lives.

The remaining account is Buildings. Since the FCC has allowed flexibility in subcategorizing this account, some LECs have developed subcategories based on building size, others have subcategorized based on location and still others based on use. At this time, the FCC is not proposing basic factor ranges for the Buildings account due to the significant differences in subcategories among the LECs. The FCC proposal is to maintain the basic factors underlying the currently prescribed depreciation rates until the three-year review of the basic factors, at which time ranges will be reconsidered. NARUC agrees with the FCC that current Buildings basic factors cannot be used to establish ranges. NARUC further agrees that if ranges were to be established for this account, uniform subcategories would be necessary.

NARUC continues to endorse simplification of the depreciation process and commends the FCC for the measured steps taken in CC Docket 92-296. However, NARUC cautions the FCC not to lose sight of its primary objective, i.e., simplification by making less burdensome the depreciation prescription process, rather than creating a process whereby the LECs might obtain unreasonable, unjustified or arbitrary depreciation rates. The Report and Order released on October 20, 1993 makes it quite clear that each carrier is responsible for assuring that its basic factors reflect that

carrier's plans and operations. The BFRO presupposes that a carrier will continue to perform internal studies as before, and will propose parameters that are consistent with those studies regardless of where those parameters fall within the established ranges. NARUC urges the FCC to monitor carrier choices of basic factors within the established ranges to assure that the shortest life and lowest salvage are not automatically chosen. Such actions on the part of the LECs would no doubt comply with the letter of the simplification procedures, but clearly would meet neither the intent nor the spirit of those procedures. The intent of the simplification process, as NARUC understands, is not to ignore reality and remove all objectivity by allowing a carrier to use the highest possible depreciation rate within the range. Rather, it is the responsibility of each carrier to propose the basic factors that match the capital consumption of its utility plant.


NARUC repeats its previously stated position that it is imperative that carriers continue to maintain continuing property records and mortality data by account.

Further, NARUC wishes to reiterate the position stated in its December 17, 1993 comments regarding phase one implementation that any basic factor ranges adopted by the FCC are for interstate depreciation purposes only, and that the various state commissions are free to establish depreciation rates for intrastate purposes in whatever manner and at whatever level they deem appropriate consistent with the laws and rules of the respective states.

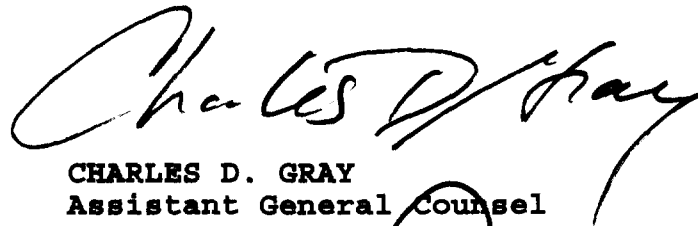
IV. CONCLUSION

NARUC respectfully requests that the Commission examine and give effect to these comments.

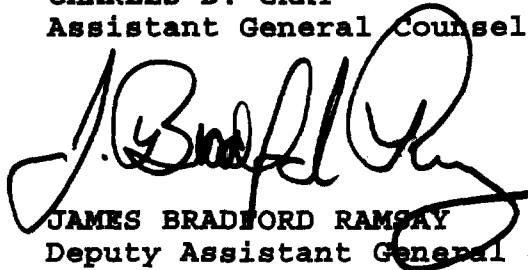
Respectfully submitted,



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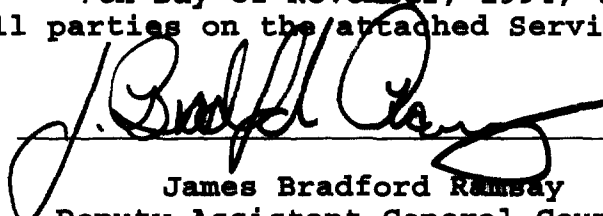
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November 7, 1994



CERTIFICATE OF SERVICE

I, JAMES BRADFORD RAMSAY, certify that a copy of the foregoing was sent by first class United States mail, postage prepaid, this 7th Day of November, 1994, to all parties on the attached Service List.

  
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